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20 November 1962

MEMORANDUM FOR THE RECORD

SUBJECT: Use of Continuous-feed Machine
Type Form 1099, U.S. Information Return

1. PROBLEM

Is it feasible from a security and cover viewpoint for the Agency to use a continuous-feed machine type of Form 1099, U.S. Information Return?

2. FACTS BEARING ON THE PROBLEM

- a. Forms 1099 are issued to Internal Revenue Service (IRS) and in some cases copies are sent to states, to report taxable compensation paid to certain individuals from which no tax has been withheld. A maximum of three copies of each Form 1099 go outside the Agency. One copy of the form is submitted to IRS, one copy to the state of residence of the individual if it has an income tax law, and a copy to the individual. One copy is retained by the Agency.
- b. Forms 1099 from all employers are filed with one of three specified IRS offices. A Form 1096, U.S. Annual Information Return, is used by an employer as a transmittal for each batch of Forms 1099. There is no listing of individuals for whom Forms 1099 are submitted. The manner of filing also applies when copies are sent to state taxing authorities.
- c. (1) This Agency issues Forms 1099 in the names of several employers as follows:

	<u>NAME</u>	<u>APPROXIMATE NUMBER</u>
25X1C4a	C.I.A.	50
25X1C4a	(issued by Fiscal and Finance Division)	150
	(issued by Fiscal Division)	1,500
	Various (issued by Finance Division)	2,300

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GROUP 1
Excluded from automatic
downgrading and
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- (2) Data for Forms 1099 issued by the Fiscal Division have been transferred to a machine process for 1962 tax year. If Forms 1099 also could be prepared on a continuous form by machine in the future, the Agency could save the cost of approximately 150 hours of overtime annually in the Fiscal Division for summarizing data, typing and proofing, compared with a cost of about \$15.00 per thousand for the continuous-feed forms and a nominal amount of time for processing the data and forms by ADPD. An additional saving in the Finance Division could result from use of a continuous form which would reduce the time required for assembling the single copies, inserting and removing carbon paper, and controlling the copies produced.
- d. The use of Form 1099 by selected other Federal agencies was found to be as follows:

<u>NAME OF AGENCY</u>	<u>APPROXIMATE NUMBER</u>
U.S. Army	200 per year (No need for machine form)
Dept. of Commerce	
Bureau of Standards	200 (No need for machine form)
Other Bureaus	None or negligible

The representative of the company which would print the continuous form has stated that to his knowledge, no other Federal agency has ever ordered continuous Forms 1099 from his firm.

3. EVALUATION OF THE PROBLEM

- a. The feasibility of using a continuous-feed Form 1099 in lieu of a single form or sheet form (3 to a sheet) is dependent upon whether such use could result in the association of a covert activity or individual with the Agency.

- (1) A comparison of the continuous-feed form with the regular forms indicates that there is no difference in printing - front or back. No contractors' number appears as on some other forms such as IBM punch cards. After removal of the perforated edges which feed the form through the machine, and separation of the forms into single units, the only evidence of a continuous-feed form would be the irregular edges resulting from the scoring on all four edges where

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the separations were made. Forms 1099, printed 3 to a sheet, will also have evidence of some scoring on the bottom edge of the top form, on the top and bottom edges of the middle form, and on the top edge of the lower form.

- (2) Forms 1099 are filed by the thousands from industry. It is assumed that under recent Federal tax law requiring industries and businesses to report dividend and interest payments on Forms 1099, the IRS will receive literally thousands of continuous-feed type Forms 1099. The volume of Forms 1099 issued by this Agency and submitted to IRS through different channels under various employer names and at different periods of time would appear to become insignificant in the total volume of such forms received by IRS. In the near future, IRS plans to transfer information concerning the individual, the compensation reported, and the employer from Form 1099 to magnetic tape so that such data can be cross-checked by EDP methods with data from the individual's income tax return. It is believed that the volume processing of Forms 1099 by IRS would preclude the likelihood of anyone taking any special interest in whether forms are continuous-feed or single forms from a particular employer and also would preclude any attempt to relate forms issued in different employers' names with this Agency. These conditions also apply generally to states with income tax laws to which copies of Forms 1099 are sent.
- (3) The individual who receives compensation which is reported to IRS on a Form 1099 does not file a copy of a Form 1099 with either his Federal or state tax returns. The copy furnished to the individual by the employer is an information or "courtesy copy" for retention by the individual.
- (4) It is believed that while no Federal agency of those contacted uses or is interested in using a continuous-feed form, the fact that this Agency might use such a form for all of its needs would not become conspicuous in the total volume of forms processed by IRS or a state.

4. CONCLUSION

Based upon the foregoing information, it is concluded that continuous-feed Forms 1099 are feasible and more

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economical for use by the Agency, whether produced on a billing machine or by typewriter and that the use of such forms would not by themselves become a basis for association of a particular covert individual or activity with this Agency.

5. RECOMMENDATION

In view of the conclusion, it is recommended that a supply of continuous-feed type Forms 1099 be obtained and used by the Agency.



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Chief, Technical Accounting Staff

CONCUR:

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[Signature]
Office of Security

21 November 1962
Date

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[Signature]
Central Cover Staff

21 November 1962
Date

APPROVE:

Deputy Comptroller

Date

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TAS *[Signature]* /jsh (20 Nov. 1962)

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